EXHIBIT A

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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK
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GUCCI AMERICA, INC. et al., ,

Plaintiffs,

v. 10 CV 4974 (RJS)

WEIXING LI, et al.,

Defendants.

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New York, N.Y.
January 5, 2011
12:05 p.m.

Before:

HON. RICHARD J. SULLIVAN,

District Judge

APPEARANCES

GIBSON, DUNN & CRUTCHER, LLP
Attorneys for Plaintiffs
BY: ROBERT L. WEIGEL
ANNE MAUREEN COYLE
JENNIFER COLGAN HALTER

WHITE & CASE, LLP
Attorneys for Defendants
BY: DWIGHT A. HEALY
MARIKA MARIS

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(In open court; case called)
THE DEPUTY CLERK: For the plaintiffs?
MR. WEIGEL: Robert Weigel, Anne Coyle and Jennifer Halter from Gibson, Dunn & Crutcher for the plaintiff.
THE COURT: In that order?
MR. WEIGEL: Jennifer Halter and Anne Coyle.
THE COURT: That's what I thought. Good. Good afternoon to each of you.
For the defendant, it's for the Bank of China?
MR. HEALY: Yes, your Honor. Dwight Healy of White & Case and Marika Maris.
THE COURT: Mr. Healy and Ms. Maris, good afternoon.
I want to start with, I guess, we are here for two

matters really. It's the same docket number. One relates to the default judgment by plaintiffs against the named defendants in this case. Why don't we start there. I think that it could have implications for where we go after that.

I'll make it clear. The complaint in this action was filed June 25 of 2010. It named certain of the defendants. On June 25, I entered a temporary restraining order that directed defendants to refrain from certain activities. Thereafter, there was service, I think, of the restraining order. There was also subsequently an amended complaint filed in October. There was a preliminary injunction in the interim that I ordered on July 12 roughly in line with what was in the

temporary restraining order. That too was served on the defendant, I believe. After the amended complaint was filed which named a couple of additional defendants -- I think that's right.

MR. WEIGEL: Yes, your Honor.

THE COURT: -- those were filed. The time in which to answer the complaint, those were served -- excuse me. The time in which to answer the complaint came and went in July, I believe it was, and defendants didn't file a notice of appearance, didn't answer, have never appeared in this action.

On November 8, I believe, plaintiffs sought certification of default from the clerk of the court, and on November 23, I issued an order to show cause directing the defendants to appear -- to show cause why they should not have a default judgment entered against them. That order to show cause was served on the defendants. The order directed defendants, I think, to make -- yes, they were to make submissions by December 22nd, I believe. No submissions have been made. I think the original hearing was the 29th of December and it was put off until today.

Just so we're clear, is anybody present here today who is representing the defendants or the defendant themselves? No? OK.

Mr. Weigel, have you had any communication with the defendants?

MR. WEIGEL: Apart from Lijun Xu, your Honor, who was the one defendant to appear by counsel, and we reached a stipulated judgment with him, we have had no contact with anyone.

THE COURT: So I am prepared to enter a default judgment against the defendants. And the plaintiffs have provided an order -- a proposed order that lays out the terms of the judgment. I am OK with most of it. I wanted to have a little conversation about the amount of the judgment, the proposed amount of the judgment is $12 million, which would be statutory damages for the multiple violations. I think you said was it $200,000 per identified violation?

MR. WEIGEL: We set it at $200,000 per mark per category of item, your Honor.

THE COURT: Just talk to me about sort of why that number. I have a lot of discretion on this. The cap is a million dollars, but certainly the precedent is for generally less than that where it is not blatantly willful or there is

not evidence of bad conduct. Here we don't have much of a record because the defendants never showed up. So why 200,000?

MR. WEIGEL: Well, the simple math, your Honor, is that we historically had gotten $100,000 per mark, and the last time we were in front of your Honor, your Honor gave us $100,000 per mark per item. I believe the total judgment was somewhere in the magnitude of $13.5 million. Since that time,

Congress has chosen to double the statutory penalties from, I think, a maximum of a million to a maximum of 2 million. So we have historically gotten a hundred thousand per mark. When Congress doubled the amount, we thought it appropriate to double it. We thought it was in the lower range of what was possible.

THE COURT: Well, certainly, it's, I guess, at the lower end of what is possible. It is at the relatively high end of what is actually handed out in most cases. I mean, I have no sympathy for people who infringe.

MR. WEIGEL: Your Honor, we know about these folks. Some of what we don't know is what we're going to cover next with the back table. What we do know is that this operation was large enough that they had a $400,000 reserve account, which is typically a fraction of the sales. In other words, the credit card company keeps a certain percentage of each transaction to protect itself from people who come back with a chargeback. So we know that this operation was large enough that they had a $400,000 chargeback, which is obviously a fraction of the total sales. We know that Redtagparty had operated another web site selling fake stuff. They were shut down by Chanel, and all they did was change their name and operate again in this new manner.

We also know that these folks, unlike some of the other folks, were actually selling these goods as genuine.

What we believe happened is that they had them shipped over from China to their address in San Diego, then they unwrapped them and took away the Chinese packaging and put them in a nicer box and sent them to people. So these folks, we think, are more egregious than the other folks both because of the volume of the stuff that we've been able to locate, the fact that they've done this twice already that we know about, and the fact that they were not only violating the trademark laws, but they were really committing fraud by representing these were genuine products when they clearly were not.

So, we thought that that was appropriate given the magnitude of the operation and the egregiousness of the conduct and, of, course they have not come in and appeared.

THE COURT: They have not?

MR. WEIGEL: Come in and appeared.

THE COURT: But plaintiffs have this advantage to establish facts. All right. I think that's reasonable. I think I have a fair amount of discretion, and I think in light of what you just said, which is unrebutted at this point, and in fact it's corroborated in part of the record, I'm going to grant $12 million in damages. That will be the damage award.

MR. WEIGEL: Thank you, your Honor.

THE COURT: I have a couple other questions about the

contours of the order, particularly in paragraphs 7, 8 and -- 7
and 8, which talks about the court's inherent equitable power

to issue remedies ancillary to its authority to provide final relief, and then there is a long paragraph, I won't read the sentence, but it extends to some other folks, right? It covers the defendants, but it also covers those who have assets of the defendants and it also covers in that definition various banks and credit card companies, right?

MR. WEIGEL: Yes, your Honor. I believe that these are the accounts that were frozen pursuant to the preliminary injunction.

THE COURT: So, it's basically saying these are the assets of the defendants and, therefore, should be subject to this order as property that belongs to the defendants.

MR. WEIGEL: Yes, your Honor.

THE COURT: Right?

MR. WEIGEL: I mean, your Honor has the equitable power to order that the profits of the defendants be turned over to us, and that is essentially what we are asking to partially satisfy the judgment, or maybe even completely satisfy the judgment, since we don't know what's in the Bank of China account.

THE COURT: I guess it's just "associated with" is the one word that I'm not sure if it goes farther than I can or should. I'll come back to that.

Now, I want to move to the other issue which relates to the motions before me to compel the Bank of China to freeze

assets and to produce certain documents and then the countermotion of the Bank of China to modify my preliminary injunction order to limit its application to the United States and to not extend to China, both with respect to assets and documents.

I think there are different analyses for each, so I want to start with the freezing of assets.

Mr. Weigel, the papers back and forth mention, at least, the concept of the separate entity rule, which is New York Law and the Second Circuit has endorsed, and that's with respect to prejudgment attachments which seems to be what the preliminary injunction order is dealing with, right?

MR. WEIGEL: Well, your Honor, it's slightly different but they're certainly analogous concepts. Your Honor's order was issued under the authority given by the Lanham Act, which authorizes you to issue any injunction necessary to protect the rights of the trademark holder, and the whole idea of there being some question, the extraterritoriality of the Lanham Act is a complete red herring.

In 1954, the Supreme Court in the Bulova case applied the very same presumption that the Morrison court did and ruled that basically a fellow who was making Bulova watches in Mexico couldn't get around the trademark laws that easily. They applied --

THE COURT: Well, they couldn't get around them if

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he's -- well, maybe I'm not familiar with the case. So the articles never entered the stream of commerce of the United States?

MR. WEIGEL: No, the Supreme Court held that in fact the Bulova watches that were coming across the border, that legitimate jewelers were being forced to deal with repairs and so forth, and they held it had an effect on U.S. commerce, and that the Lanham Act extended to these activities that took place in Mexico. That was 1954. Certainly, Congress thought that that was not what it intended. It has had many years since then, my entire lifetime, to revise it, and they have not done anything like that.

But this case actually does not really involve that question very much. This was a sale in New York. This is a web site that was operating in the United States. Some of the perpetrators were in San Diego, and they were shipping goods from San Diego to New York and all across the United States. So this is really -- this is an act in the United States. This is violating the trademark laws.

THE COURT: Clearly, the defendants are liable in the United States and in this district. I've already entered a judgment against them. The issue is whether prejudgment the property of those defendants; that is, in China or North Carolina or Timbuktu, is subject to an order from this Court to a branch of the bank that happens to be in New York where the

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property is outside of New York, right? That's the issue.

MR. WEIGEL: Well, both under federal law and under New York State Law as incorporated by Rule 64 for prejudgment attachments, both permit this and in fact authorize it.

Let me start with New York State law. It had been the law in New York for many years that you could only attach property within the borders of New York State. This year the Court of Appeals in the Hotel 71 case ruled that where you have personal jurisdiction over the defendant, that you're entitled -- that attachment is not limited to assets within the state, but can be to any property --

THE COURT: The Hotel 71 case, is that in your brief?

MR. WEIGEL: It is, your Honor. I happen to know it because I argued the case and won it.

THE COURT: But what -- I'm looking at your --

MR. WEIGEL: It is in our decision or in our brief. It is on page 14. Here is what the Court said.

THE COURT: I'm looking to see where it is. I don't see it on page 14. Hotel 71?

MR. WEIGEL: It's about the middle of the page, your Honor, about five lines down from the top.

THE COURT: I'm looking at the wrong brief. Sorry. Your opposition brief?

MR. WEIGEL: Yes, your Honor. I can hand you up a copy of the case if you want.

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THE COURT: Sorry. I was looking at the wrong brief. Go ahead.

MR. WEIGEL: What the Court of Appeals decided in that case was that if you are using an attachment to get in rem or

quasi in rem jurisdiction, then, yes, the property has to be within the state. But if it is not, if you already have personal jurisdiction over the defendant, as we do here through Long-Arm Statute, that it held that a court with personal jurisdiction over non-domiciliary present in New York has present jurisdiction over individuals --

THE COURT: That's not a bank case though, right?

MR. WEIGEL: Well, you have --

THE COURT: The rule with respect to the separate entity doctrine is a rule that is designed, I think in part, to protect New York banks from becoming the subpoena recipients for the world because every bank has a New York branch. And if you get to just stroll into New York to get property all over the globe, that is problematic for New York banks, right? So Hotel 71 has nothing to do with that, does it? It doesn't address the separate entity rule, does it?

MR. WEIGEL: It doesn't address the separate entity rule, but it cites the Koehler case, which is the Bank of Bermuda case, which is --

THE COURT: Which is all about pre- and postjudgment attachments, right?

MR. WEIGEL: Well, the Koehler.

THE COURT: It makes a clear distinction between one and the other.

MR. WEIGEL: Yes, but Hotel 71 clarified that the distinction that Koehler made between pre- and postjudgment attachments only related to those situations where prejudgment attachments were used to obtain in rem jurisdiction. And if you read that case --

THE COURT: I have read that case.

MR. WEIGEL: It says very clearly, every time it says you can only attach property within the borders of the New York, it also says in order to attain personal jurisdiction or in order to attain jurisdiction over the defendant. That is the distinction that the Court of Appeals made in the Hotel 71 case where they said CPLR 6202 which says bluntly that any debt or property which -- against which a money judgment may be enforced and provided to 5201 is subject to attachment.

The Court of Appeals basically in that case said that that statute 6202 means what it says, and that if you can enforce it subject -- if you can enforce a judgment against it, then you can attach it. That is what the Court of Appeals said. And they said that the difference is that you can't get jurisdiction over non-resident defendant by attaching something out of state, but if you have personal jurisdiction over that defendant, then 6202 should be read as it says, that anything

you can execute upon, you can attach in New York.

So, read together, Koehler which held that service -- well, there was service in that case on the Bank of Bermuda in New York at their New York branch. It was a case involving a judgment --

THE COURT: I don't see how you can square that with -- I will take a look at the case to make sure I am not misreading it, but Koehler at page 538 expressly talks about what Article 62 attachment proceedings are about. I don't

think it can be reconciled with what you just said.
MR. WEIGEL: Your Honor, I would urge your Honor to read Hotel 71 because this is exactly the argument my adversary made in that case, and the Court of Appeals unanimously --
THE COURT: But it's not a bank case. Again, the separate entity doctrine is a doctrine that is reserved for banks, right?
MR. WEIGEL: The separate entity doctrine is a doctrine reserved for banks and it is nowhere mentioned in the Koehler case. What the Koehler case said is if you had jurisdiction over the bank which was obtained in that case by service on the branch in New York, that you could make a bank in Bermuda bring shares into New York for the sole purpose of satisfying a judgment that had been registered in New York and had nothing to do with New York.
THE COURT: So your view is then that Hotel 71

basically has overruled the separate entity doctrine, it seems to me, which the Second Circuit --
MR. WEIGEL: Well, the separate entity doctrine, I think -- I'm sorry, your Honor, please.
THE COURT: I was going to say the Second Circuit seems to have missed the memo on that, but all of this is fairly recent, so who knows.
MR. WEIGEL: The Second Circuit didn't miss the memo on that, your Honor, although I read that case last night and when I first saw it cited in their brief, I was a little --
THE COURT: Talking about the Judge Cabranes case or something else?
MR. WEIGEL: The 2010 case, the Allied Maritime case. But if you read that case carefully, as I did very carefully last night, believe me, your Honor, it says right up front there is no personal jurisdiction over the defendant. What the case says is in cases where the district court has no personal jurisdiction --
THE COURT: What page are you at?
MR. WEIGEL: It's page 4 of the Westlaw printout, your Honor. It's right under the heading jurisdiction after discussion.
THE COURT: "We agree," that one?
MR. WEIGEL: Yes. In cases where the district court has no personal jurisdiction over a party, jurisdiction can be

established based on the court's power over property within its territory. Then it goes on to say that that property in that case, which was a bank account in Paris, was not within the court's territory and therefore could not justify quasi in rem jurisdiction within New York.
That is not what we have here. This is not a quasi in rem case. This is personal jurisdiction over the defendant.
THE COURT: It's different than these maritime cases, I see that. In light of the fact that I've just entered a judgment here, in some ways does that moot this out, because under Koehler, under 5225(b) of New York CPLR there now clearly is a judgment and the property that belongs to the debtor, to the defendants in this case, now is and can be ordered turned

over even if it is out of the jurisdiction.
So, yours is an interesting question going forward, and a very relevant one, but for practical matters, as of today, does the fact that I just entered a default judgment against the defendants make this even easier?
MR. WEIGEL: It does, your Honor. It absolutely does. There is one practical concern which I think is the question of -- but, again, I think your Honor's decision resolves it. There was an order that your Honor issued freezing the account.
THE COURT: Right.
MR. WEIGEL: The Bank of China did not come in and ask

your Honor to alter that order.
THE COURT: They did last week.
MR. WEIGEL: Last week. But up until that point, they did not. There is no question that they are on Madison Avenue doing business in New York, and that the Bank of China that's here is the same Bank of China that's in China. It's the same corporate entity. There is no difference at all. They were under an obligation to follow that order until it was modified.
THE COURT: The issue as I could see you're suggesting is that they waived an argument now to challenge or modify?
MR. WEIGEL: No, I'm suggesting, your Honor, that if they did not in fact freeze the account, an order of your Honor directing them to turn over the contents of that account today may in fact, if your Honor were not to enforce the order that was already served upon them, may subject me to some serious --
THE COURT: Maybe. We don't know. I guess there's a shoe that could drop. Not clear if it will drop.
MR. WEIGEL: Yes.
THE COURT: If I ordered the Bank of China, in light of today's default judgment, to produce or turn over the assets that are the debtor's assets in China, pursuant to, among other things, 5225(b) of the New York CPLR, then I guess they'll either turn something over or they won't turn something over. And then it may be relevant to know if they're not turning over anything, why not, because the assets were dissipated or, you

know, took off sometime between after the preliminary injunction and today. That might be a problem, and then we'd have to deal with the issue, right?
MR. WEIGEL: Exactly, your Honor. We just don't know if they permitted the account to be drained or not. If they held on to the money and then your Honor orders them to do it postjudgment, then all we need are the documents to confirm all that and we're fine.
THE COURT: All right. Let me hear from Mr. Healy.
MR. HEALY: Your Honor, would it be all right if I spoke from the podium?
THE COURT: Absolutely.
MR. HEALY: I should say at the outset, your Honor, that Mr. Weigel and I have a fundamentally different understanding of the Koehler case and the Hotel Mezz case.
THE COURT: Well, that may be.
MR. HEALY: And the separate entity rule is, as your Honor flags, critical here because, among other things, the grounds that were cited to support the issuance of the assets

restrained in the Court's preliminary injunction order were Article 62 of the New York CPLR.

THE COURT: Right.

MR. HEALY: As your Honor recognized, it is that literally for scores of years the New York and Federal Courts have concluded that in the context of a prejudgment attachment,

a service on a New York branch does not reach accounts that are located in branches or the head office of a bank outside of the boundaries of New York.

THE COURT: Right.

MR. HEALY: Nothing in Koehler or Hotel Mezz alters that. The district court case, the district court decision in Koehler in the federal court that ultimately certified the question to Koehler specifically said that the separate entity rule was not at issue there. The parties did not brief the separate entity rule. Koehler in no way, shape or form, even postjudgment, affects the separate entity rule. It is not mentioned. We are separately litigating in New York Supreme whether in fact Koehler has any impact on the separate entity rule.

I would point out to your Honor that the New York Federal Reserve Bank has submitted an amicus submission in that case indicating that Koehler should not be read to permit an enforcement order to call for a turnover of property that is in the count outside of the jurisdiction of New York.

THE COURT: Look, I think that's all interesting, and we may need to get there, but I want to focus now on what might be the shortcut, which is I just issued a judgment against the defendants in this case. So now there would be a proceeding under Article 52, right?

MR. HEALY: Yes.

THE COURT: And that's 5225(b). And now it sounds like under Koehler and under the CPLR, I can order the defendants or anybody who's got the defendant's assets to turn them over.

MR. HEALY: Well, your Honor, that's really the point I was just speaking to, which is that Koehler does not say anything about the separate entity rule; and contrary to what Mr. Weigel said, Koehler did not involve service on a New York branch. In Koehler, the parent entity had a subsidiary. There was a dispute for some period of time as to whether the bank, the head office of the bank, was subject to jurisdiction here. The bank eventually stipulated that it was subject to jurisdiction here. The Court --

THE COURT: It's a bank case, right? It's the Bank of Bermuda.

MR. HEALY: Yes, but it does not involve service on a branch. The separate entity rule is not implicated. As I've just said to your Honor, the issue --

THE COURT: Well, here is the issue that is certified for Koehler: May a Court sitting in New York order a bank over which it has personal jurisdiction to deliver stock certificates owned by a judgment debtor to a judgment creditor when those stock certificates are located outside New York. That's pretty clear it's about a bank. The separate entity

rule would either apply or not apply.

MR. HEALY: Your Honor, the separate entity rule says that service on a branch doesn't reach accounts at other branches. The service there was not on a branch. The head office of the Bank of Bermuda stipulated that it was subject to jurisdiction here. There was no issue as to whether an order directed at a local branch could reach assets abroad. There was no issue as to whether compliance with that order would violate the laws of the home jurisdiction. There were also a number of other significant issues that were not addressed.

And as I've said to your Honor, it is at the very least an open issue as to whether Koehler has any effect on the separate entity rule. As I've said to you, it's currently being litigated in New York Supreme Court. The New York Federal Reserve has weighed in on this issue citing very significant policy concerns about reading Koehler to do away with the separate entity rule and to permit a turnover of assets from a foreign branch based upon the presence of a New York branch. The Clearing House Banking Association has weighed in on the issue. The International Banking Association has weighed in on that issue. That is an open issue. If the Court wants to move to that issue, and we certainly ask for the opportunity for it to be briefed because we think it is a very significant issue, but --

THE COURT: Go ahead.

MR. HEALY: But I do think the question that we have

today, and it is still a very live question, is whether or not the asset restrained in a preliminary injunction could properly reach accounts that are outside of the United States. Under the separate entity rule and a prejudgment attachment context, that is still live.

Just to address Hotel Mezz, what Hotel Mezz says is the rule of Harris v. Balk applies. It didn't say you could reach assets outside of the state. What it said was that for the type of intangible assets that were issued there, which were uncertificated interests in business entities, the location under Harris were at the location of the owner of the interests. The owner of the interests was a defendant. That owner was served in New York with the order of attachment. The Court said that based upon that, the assets were present in New York at the time of service, the order of attachment captured those assets because they were in New York. Their situs was in New York where the owner was when he was served.

There is no suggestion in that case that an order of attachment served on a New York branch of a foreign bank can reach accounts outside of the United States. There is no suggestion that it affects the separate entity rule. A separate entity rule was not involved in any way, shape or form.

THE COURT: But the separate entity rule is not designed to protect the defendants like those here who now have

judgments against them, right? So they've got judgments against them. I am ordering them to turn over the property to satisfy the judgment. To the extent that they don't do that, and their property is in the custody of your client, a bank, or your client, a shoemaker, why on earth wouldn't Article 52, specifically 5225(b), apply?

MR. HEALY: Because the separate entity rule stands as a bar to granting that relief.

THE COURT: For postjudgment relief?

MR. HEALY: Absolutely.

THE COURT: What is the authority for that? All the cases cited, at least the ones I focused on, were prejudgment Article 62. What are the ones that relate to postjudgment, application of the separate entity doctrine on postjudgment property?

MR. HEALY: Judge Preska's decision in Lok, the Motorola v. Uzan.

THE COURT: Judge Preska's decision was -- all right. Go ahead.

MR. HEALY: The Fidelity Guaranty case, all of those cases are postjudgment cases that apply the separate entity rule. So the question is whether Koehler overturns that line of authority. Then there are also state cases that have applied the separate entity rule postjudgment.

THE COURT: Fidelity Partners. What were the other?

Ones.

MR. HEALY: Motorola v. Uzan and Lok Prakashan. They're all cited in our memorandum of law.

THE COURT: I know they are there. I really had focused on, and, I think for the most part, you were focusing on the prejudgment aspect of this.

MR. HEALY: Sure. But I think the point is, your Honor, that the separate entity rule operates in the context of a bank, pre- and postjudgment, and has been uniformly so understood, and the question that is on the table now is whether Koehler, which does not so much as mention the separate entity rule, overturns.

THE COURT: But the point about Koehler, of course, is that Koehler said very explicitly that Article 52 has no extraterritorial limitation, right? Article 52 does not. 62 does. Isn't that the holding in Koehler?

MR. HEALY: What Koehler says is that enforcement is in personam, but it does not address the separate entity rule, and it does not speak to the issue of whether, as cases have previously interpreted Article 52, Article 52, like Article 62, is subject to the limits of the separate entity rule.

THE COURT: Just so we're clear, the language of Koehler is CPLR Article 52 contains no express territorial limitation barring the entry of a turnover order that requires a garnishee to transfer money or property into New York from

another state or country. So, your argument is that there's a carveout for banks that this language would not apply.

MR. HEALY: There was a carveout for banks that was widely recognized before Koehler. Koehler does not speak to that carveout. Parties with significant --

THE COURT: It doesn't speak to that carveout -- look, it's a case involving a bank, and it's a bank over which the Court has personal jurisdiction, right?

MR. HEALY: Not by reason of a branch.

THE COURT: But who cares? The point is that there are various ways you could get personal jurisdiction over a bank. One of them, the easiest one, is that they happen to have a branch right on Madison Avenue. But there might be others. But I am not sure what difference that makes. So why do you think it matters whether the personal jurisdiction over the bank was because they have a branch on Madison Avenue or for some other reason?

MR. HEALY: Because the separate entity rule has historically stood for the proposition that in a branch bank situation there are substantial policy considerations that militate against using the presence of a New York branch here as a basis for reaching assets that are outside of the United States. Koehler is an unusual situation because in Koehler we don't have a New York branch versus a foreign branch situation. What we have is a bank entity that appeared in New York,

conceded that it was subject to jurisdiction, the parties and the Court in the federal case all agreed that the separate entity rule was not implicated by the facts pattern that was present in the Koehler case.

As I said, your Honor, in amicus submissions the New York Fed and other disinterested parties have indicated that there are substantial reasons not to read Koehler to permit the turnover of assets outside of the United States on the basis of a New York branch. Among those reasons, of course, is that it is an invitation to foreign jurisdictions to do the same thing to U.S. banks who operate with branches abroad.

In any event, we think there are substantial issues about that. If the Court wants us to address that, we would ask for the opportunity to brief it because we do think there are significant issues. They're not frivolous issues, your Honor.

THE COURT: I'm not accusing anybody of making frivolous issues. They're interesting issues. They are certainly policy considerations that go both ways. I get that.

MR. HEALY: But we still are here in the context of a request for an order that compels compliance with the preliminary injunction that was granted prejudgment and rests in significant part on Article 62. And there is nothing in the case law that has been cited that suggests that the Koehler case or the Hotel Mezz case overruled the separate entity rule

for purposes of prejudgment attachment.

I would add one other thing: Plaintiffs actually cited Article 62 as a basis for the Court's preliminary injunction order, but they didn't ask for or get an order of attachment. They got an injunction. An injunction is a different form of provisional remedy. So I am not sure how the availability of an attachment, if one had been sought, justifies the issuance of an injunction. Certainly, under New York law preliminary injunction is a separate provisional remedy. There was no argument that such a remedy under New

York law was available.
THE COURT: I get that. But is this in response to Mr. Weigel's suggestion that you guys have sat on your hands for several months after I issued the injunction or I'm not sure I'm following you.
MR. HEALY: Well, I heard that, your Honor. I haven't seen any case law that says that there's no time limit for seeking relief in a preliminary injunction. It says it can be brought on by short notice. It does not say that it has to be brought within a specified period of time. We searched in response to the argument that was set forth in Mr. Weigel's brief. We searched for case law that addressed the issue. The one case we found said that delay is not an impediment to granting that relief to modify. We don't see any reason why. We had made our position absolutely plain in communications

with Mr. Weigel's office from the outset.
THE COURT: Look, I don't think a jurisdictional deficiency can sort of be waived by time here, nor did I find any authority to suggest that you give up your right to move to modify or vacate a preliminary injunction by waiting a few months. That's a different issue as to whether or not you can be held in contempt, I think, but the argument you are making is you can't be held in contempt of an order that the Court didn't have jurisdiction to issue in the first place.
MR. HEALY: Certainly, your Honor.
THE COURT: I get it. I'm not sure I agree with it. I'm not sure I agree that I didn't have jurisdiction in the first place, but the argument makes sense to me.
MR. HEALY: Can I turn to the other grounds?
THE COURT: Sure. Other grounds for?
MR. HEALY: There were three grounds that were cited as authority for issuing the asset freeze order. We don't think any of them supports the asset freeze order.
THE COURT: Article 62.
MR. HEALY: Article 62, separate entity rule precludes that. The second is Section 1116(a) of the Lanham Act. When you look in 1116(a) of the Lanham Act, I think you are hard-pressed to find anything that would suggest that an asset freeze is authorized. What 1116(a) says is that the Court can issue an injunction to prevent the violation of any right of

the registrant of a mark. No statement that an asset freeze is possible. I think it's not possible to construe that language to authorize an asset freeze, and, interestingly, none of the cases, none, that have been cited to the Court to support an asset freeze in the Lanham Act context rely on the language of 1116(a). Indeed, the Motorola case which was cited in the opposition brief points out that 1116 by its terms does not appear to authorize an asset freeze.
The cases actually go down on a different basis. They cite 1117, which provides for the recovery of profits. Without analysis, they say that that conclusion, that that is an equitable claim, and that, therefore, they have inherent equitable power to issue an asset restraint. We don't think that that stands up to scrutiny.
But before we get there, I'd like to talk first about

Grupo Mexicano and the statement in the complaint in this case. Grupo Mexicano, of course, says that in an action to recover damages, the Court does not have inherent equitable power to issue a global asset restraint.

The complaint in this case asks for a preliminary injunction asset freeze. It says: That plaintiffs are seeking an asset freeze to secure their award of damages. Damages. That's what they say.

THE COURT: Right.

MR. HEALY: Specifically, they ask for an asset freeze

so that the plaintiff's right to the damages set for in this complaint is not later rendered meaningless. That relief as they've characterized it in their complaint is barred by Grupo Mexicano.

Now, as I said, they now try to bring themselves within the line of cases under the Lanham Act that have said that a claim for profits is an equitable claim which entitles the Court to exercise its equitable power to grant a prejudgment asset restraint. Those cases contain no analysis, and there is no Second Circuit case that actually has granted that relief. The Second Circuit case that we cite which is illuminating about what a claim for profits means is the George Basch case.

George Basch says that there are three totally distinct rationales for granting profits in a Lanham Act case: One is unjust enrichment, one is as a proxy for damages, and one is to serve the role of deterrence. And the cases that have actually analyzed Basch and have analyzed the claim have said that at least where the claim for profits is being used as a proxy for damages or deterrence, it is a legal, not an equitable, claim. OK?

THE COURT: So what would be the difference here between unjust enrichment and --

MR. HEALY: Well, there is no claim for unjust enrichment. Indeed, the Second Circuit --

THE COURT: You mean they have to plead it in order to --

MR. HEALY: I think they'd have to plead it and prove it, your Honor. The Basch case says that if you can't offer proof that sales were diverted, then you don't have an unjust enrichment claim.

If you look at the way they shape their claim, they include a request for profits in a single paragraph with a request for damages. When they ask for preliminary relief, they say, we want the preliminary relief to secure an award of damages. That's what they said in their memorandum of law in support of the application for a preliminary injunction. And explaining why they needed it, they said, well, our experience has been that we'll recover more of our damages if you issue an asset freeze in advance.

THE COURT: But it's not about unjust enrichment though. You said that they would need to offer proof that sales were diverted.

MR. HEALY: Correct.

THE COURT: Can't that be inferred from the facts

alleged in the complaint? In other words, these are not bags that were being sold as knockoffs, right? They were being sold as the authentic article.

MR. HEALY: They may have been sold as the authentic article, but there's no allegation of fact that there were

sales diversion. I don't believe there's been any proof that's been offered that suggests that. There's no characterization of this as unjust enrichment claim. And, as far as I can tell, there was a vast difference in price between these knockoff articles and what a normal Gucci product or whatever product sells for. So query whether someone who was prepared to pay $250 for a bag that from Gucci costs a thousand dollars, we are actually diverting sales from Gucci.

THE COURT: That's a compelling argument when it's $5 on Canal Street. That's not a compelling argument when it's hundreds on line with photographs of what could be genuine articles.

MR. HEALY: We don't have it pleaded. We don't have it proven. What we really have here is a request for profits that is serving as a proxy for damages. The cases have said that that is a legal claim. It is a legal claim that does not support any prejudgment in equitable relief. The fact that a request for an accounting is added to it does not alter that. Indeed, the Supreme Court said as much in the Dairy Queen case where the plaintiff sued for an award of trademark damages, and the Court said that you need an accounting for those damages is not a request for an equitable remedy and, therefore, it remains a legal claim and a legal remedy, nor does the fact that they may be entitled to an injunction to prevent violations of the Lanham Act support a prejudgment asset

restraint. That is made clear by Grupo Mexicano and the DeBeers case cited in Grupo Mexicano with approval. In that case, the plaintiff sued to enjoin violations of the Sherman Act. And the lower court granted a prejudgment asset restraint in order to assure compliance with the ultimate injunction.

The Supreme Court said, you can't do that because the provisional remedy has to be of the same character as the equitable claim that you're asserting, and a prejudgment asset restraint is not the same character as an injunction to prevent violations.

So, for all of those reasons, we don't think that under any of the three grounds that were cited there is authority to have issued the asset restraint. Now, that is one discrete argument about why the asset restraint should not have issued.

A second is the extraterritorial aspect of this. Steel v. Bulova addressed a very narrow circumstance. Texas resident buys supplies to manufacture knockoff products. He steps over the border into Mexico, sells the products, and they dribble back across the border into the United States. The Court said, OK, in that circumstance we think the Lanham Act applies to the defendant's conduct. Query whether the Morrison case decided this year doesn't overturn that because Morrison said -- Morrison overturns a test applied to the securities laws, the conducts and effects tests. In effect, what Bulova

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said was that there is an effect here and you can apply it.
But even if Morrison doesn't overturn Bulova, Bulova is extremely limited. There is nothing in the Lanham Act that is a clear indication of an intent to apply that statute extraterritorially.
I'd also add -- and, by the way, Morrison is limited to securities law. The Second Circuit made that clear a couple months ago in the Norex case when it applied the same standard to RICO.
THE COURT: But, clearly, in this case the defendants here are liable under the Lanham Act. The defendants entered into the stream of commerce of the U.S. They were online selling in the U.S., right?
MR. HEALY: Your Honor, we take no position on that. We are not arguing on the defendant's behalf that the Lanham Act does not apply to them. That is not our interest. But what is sought here is a restraint that is directed explicitly at B of C, Bank of China in China, and I think I've said this before, but if I didn't, there are no accounts at the New York branch. Any documents found at the New York branch that were responsive to the subpoena have been produced. So, what we are dealing with here is a request to apply either the Lanham Act or Rule 65 extraterritorially as to a third party, not someone who is engaged in any trademark violations.
THE COURT: Look, I think that an argument can be made

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that post TRO and post injunction the bank is certainly on notice of the infringement. To the extent the bank is providing continuing services to known infringers, that they are contributorily infringing themselves under the Lanham Act. That's not for today, I suppose, but I think an argument can be made there.
MR. HEALY: I'm sorry, I didn't mean to interrupt.
THE COURT: Go ahead.
MR. HEALY: The Bank of China is not named as a defendant.
THE COURT: I get that.
MR. HEALY: But that is the context of which we are dealing with. The bank is a third party, and the relief that is sought attempts to regulate the conduct of a third party abroad. There is nothing in the Lanham Act, there is nothing in the Bulova Watch case, there is nothing in any other case cited that supports that extension of either the Lanham Act on one hand or Rule 65 on the other.
Just to take this a step further, the district court case is dealing with extraterritorial application to parties that are cited in plaintiff's opposition memorandum, apply a three-part Second Circuit test: Citizenship of the party, whether the application of Lanham Act would conflict with foreign law, and effect on the U.S. Now I am going to come back to this in a minute, but there is no question that a

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freeze order conflicts with Chinese law. The Bank of China is

organized under and headquartered in China and is unquestionably subject to the laws of China. It is not engaged in any activity with respect to this matter that has an effect in the U.S.

THE COURT: Why do you say that?

MR. HEALY: Everything that it has done is in China, so we have a situation here where we are dealing with extraterritorial application to conduct that takes place solely in China.

I wanted to turn your Honor to the First National City Bank case, which is the only case that I believe that is cited where a territorial restraint was issued against a bank tying up accounts abroad. In First National City, of course, the Court was applying the Internal Revenue code. The bank in question which was headquartered here is now City Bank, and it was named as a defendant. The plaintiff sought, that plaintiff being the United States, sought to enforce a lien in assets that were held by City Bank at a Uruguayan wane branch. The Court specifically found that the headquarters, the head office, had the capacity to direct the manager of the branch to freeze the assets. It specifically noted that there was no contention that doing so was contrary to the law of Uruguay or would subject the bank to the risk of double liability, and it expressly noted that the district court had said if there were

such a possibility, a protective order would be issued.

Now, there are about six factors in the First National City Bank that are different from what is present here. The statutory authorization in City Bank was any injunction necessary or appropriate to enforce the tax laws of the United States. We don't have anything in the Lanham Act that is remotely similar to that.

Two, the Court was enforcing a lien, a traditionally equitable power in specific property. We don't have that here.

Three, the bank was named as a defendant.

Four, in contrast to the head office of City Bank here, which unquestionably had control over the branch, the New York branch doesn't have control over the head office of Bank of China here, and that distinction was recognized by the Second Circuit in the Ings case in the context of discovery where the Court specifically distinguished an earlier First National City Bank case involving a subpoena, and said it's one thing to say that the head office here can direct the branch to do something. It's quite another to say the local branch, the local office of a foreign bank has the capacity to cause its head office to do something here.

And, finally, it is unquestioned that Chinese law prohibits the asset restraint. There was some debate about this earlier in the papers. There was a suggestion in the moving papers by the plaintiffs that their expert, Mr. Clark,

had earlier opined that Chinese law did not actually prohibit this.

THE COURT: The freezing of assets.

MR. HEALY: The freezing of assets. Mr. Clark has submitted a declaration. And although I would say it is artfully framed, he admits now that Chinese law does prohibit

both the disclosure and freezing that is sought here. He agrees with Professor Wu whose declaration we submitted. His arguments for why that should not apply are now that it's not a strong interest of the Chinese government, and that there is no meaningful risk of liability.

On the interest point, I think that Mr. Clark ignores a few things. First of all, Professor Wu, who was one of the drafters of the Chinese commercial bank law, explains why the comprehensive banking laws that China has adopted are significant. They are intended to bring Chinese banking law and practice to develop a modern system that is consistent with what is in developed nations; in other words, to help bring an emerging economy, an emerging country in line with what is thought of as first-line bank practice in developed countries.

And, two, the confidentiality considerations are intended specifically to coax a historically Agrarian society who had been skeptical of using banks to actually be confident they can place their funds in banks and make use of them. Strong policies.

Now, in addition to that, Chinese law provides sanction versus fines, civil liability and criminal penalties for violating the strictures that are contained there. The case law, indeed, the case law that plaintiff's cite recognizes that the existence of a criminal law provision is a reflection of a strong governmental policy to assure confidentiality. We have that here.

Now, the second argument --

THE COURT: Are we talking about confidentiality now or are we talking about assets?

MR. HEALY: I think it's -- if you look at the laws, your Honor--

THE COURT: But I have been focused on assets.

MR. HEALY: You're quite right. The laws are intertwined, your Honor.

THE COURT: I want to get the other in a minute. Less than a minute perhaps.

MR. WEIGEL: Would your Honor like me to address the asset point?

THE COURT: No. I'm going to go back and look at some of these things, so I'm going to reserve with respect to the assets today. But I want to get to the documents very quickly.

MR. HEALY: Your Honor, I apologize for being wordy, but I --

THE COURT: You don't have to apologize. It's just

that today is a jam-packed day for me.

MR. HEALY: Let me move on to one other point on the asset freeze, or two other points.

A lot of reliance is placed on the myreplicahandbag case and the argument that the Bank of China behaved in that case in some way that is inconsistent --

THE COURT: It's a Judge Koeltl case? Yes, your Honor. First of all, there is an argument that is made by Mr. Clark that there was no consent. There is no question that there was a consent. Indeed, Gucci repeatedly said in correspondence to the Bank of China and in statements to the

Court that the customer had consent. The question was really whether that consent was in an appropriate form that the bank could rely on. In other words, whether it satisfied Chinese law for an appropriate customer consent. But there was a consent. There was no consent of any form whatsoever here.

Two, the fact that the bank wasn't prosecuted for freezing assets is a point that is very weak under the circumstances because the bank did not impose a permanent freeze. It froze initially as an internal matter, and as set forth in the memorandum that the plaintiffs put in in opposition, the bank eventually released those funds because of concerns about whether it could do so lawfully. So we don't have a situation where the bank in a prior action imposed an unlimited restraint and suffered no consequence.

I guess there is one other point that I would like to make because I think it is telling here. There is no case that is cited, none, by the plaintiffs where a Court has sustained an asset freeze directed at a third party that requires that third party to act in contravention of the law of its home jurisdiction in its home jurisdiction. Not one case. The relief that is sought is extraordinary relief. There are no grounds that have been cited that would support it

THE COURT: Ever? You mean -- you're talking in the asset-freeze situation.

MR. HEALY: An asset freeze. I admit, your Honor, that there is a body of law in the discovery area where the courts have gone both ways; but as to the asset restraint, there is nothing. And you know the basic rule of the Courts as cited in the restatement is that as a general matter, the Court does not require a party to take action in a foreign jurisdiction, particularly its home jurisdiction, that contravenes the law of its home jurisdiction, and that policy should be applied here on the asset restraint issue.

THE COURT: I'm going to reserve on the asset freeze. I want to talk about the documents.

MR. WEIGEL: Your Honor, may I have just two minutes on the asset freeze?

THE COURT: One minute on the asset freeze.

MR. WEIGEL: One minute. First off, your Honor, the

Koehler case was service on a branch. The Bank of Bermuda in that case did concede that it had personal jurisdiction. The Bank of China does not come in here and argue that it's not subject to this Court's personal jurisdiction. Indeed, it is not only doing business here, but it has filed actions in this court.

THE COURT: They noticed me about that.

MR. WEIGEL: The Grupo Mexicano case does not apply here because it dealt with a situation where it was a loan and it was trying to get unrelated assets. 1116 of the Lanham Act is very similar to the statute that the Supreme Court found in the First National City case authorized the issuance of an injunction under federal law to restrain a bank account in Uruguay and, indeed, what 1116 of the Lanham Act says is the court has the broad authority to grant injunctions according to the principles of equity and upon such terms as the Court may

deem reasonable to prevent the violation of any right of the registrant of the mark. Of those rights is the right to profits that the infringer earned by selling goods with our marks on them. It's an equitable right. We pled it. Mr. Healy selectively chose from our complaint, but we have pled an equitable right to profits. We are restraining here. Mr. Healy would gut the trademark laws. There are numerous cases. Judge Swain just did it in a case cited in our brief, the Balenciaga case where court after court after court has

held that the equitable powers of this court N1116 of the Lanham Act authorized restraint, a prejudgment restraint of assets. In fact, the Ninth Circuit went so far in the Reebok case to hold it was an abuse of discretion not to do that.

We are not trying to freeze random accounts that these people might have, your Honor. We are trying to freeze -- we gave them specific account numbers that the proceeds of the counterfeit sales took place in the United States were gotten to, and if you've adopted their view, which was rejected by the Supreme Court in the Bulova case, that the trademark laws somehow stop at our borders and if you ship the goods from China and get your money back to China, then the U.S. has no power over you, that is just simply not true.

THE COURT: OK.

MR. WEIGEL: The bank is here.

THE COURT: I get that.

MR. WEIGEL: And Mr. Healy did not even come in and argue that the bank is not subject to the Court's personal jurisdiction. So the Koehler case just dealt with that completely, your Honor.

THE COURT: Well, under Article 52. I don't think it's a good case for you under Article -- for prejudgment attachment.

MR. WEIGEL: I would ask the Court if you had a minute to read professor --

THE COURT: I'm going to, look, believe me. I read all the stuff. I hadn't focused on the Hotel 71 case because it's not a bank case. Koehler sure as hell is a bank case, and the language with respect to Article 62 I think is pretty explicit. So if you're suggesting to me that a non-bank case overrules Koehler with respect to Article 62 --

MR. WEIGEL: No, it doesn't, your Honor.

THE COURT: I think -- I will read it, but I'd be surprised.

MR. WEIGEL: I would just ask your Honor, what Koehler says about Article 62 is focused on prejudgment attachments for purposes of obtaining jurisdiction over the defendant. That's the distinction that Hotel 71 said.

THE COURT: I disagree with that characterization. Anyway, let's move on. I want to talk about the request to produce documents, which is distinct from the asset freeze. Here there is a more developed body of case law that basically has the Court apply a five-part test from the restatement and then a couple of additional factors that the Circuit has blessed.

I don't think there is really much dispute about those

factors. I will list them, and you can tell me if you disagree.

They are the importance of the documents or information requested to litigation; the degree of specificity

of the request; whether the information originated in the United States; the availability of alternative means of retrieving the information; the extent to which noncompliance with the request would undermine important interests of the United States or compliance with the request would undermine interest of the state where the information is located.

Then the additional factors are: The hardship of compliance on the party or witness from whom discovery is sought, and then the good faith of the party resisting discovery.

Everybody agrees that's the line-up of factors?

MR. WEIGEL: Yes, your Honor.

THE COURT: Mr. Healy, do you agree, do you agree that those are the factors I am to be weighing?

MR. HEALY: Yes, your Honor.

THE COURT: And there's authority, Second Circuit authority, and obviously district courts that have come out one way or the other in similar cases like this one based on their assessment of these factors and applying those to the facts of the case, right?

MR. WEIGEL: Yes, your Honor.

THE COURT: So, I just want to go through these. It seems to me the importance of the documents or information requested to the litigation here is obvious, and it's very important. I mean, certainly pretty tough to enforce Lanham

Act and to bring culpable defendants, not just civilly culpable, criminally culpable defendants, to justice when you can't get access to the information that is proof of their infringement and enables you to locate the assets that were derived from the infringement. So that favors the plaintiff.

MR. HEALY: Your Honor, I don't mean to interrupt you or Mr. Weigel. Do you want comments at the end or --

THE COURT: At the end. Let me run through them quickly. I will tell you where I basically come out on these, and you could tell me where I've missed something.

The degree of specificity of the request. I think it's a pretty straightforward request. Not surprising to me and doesn't seem to be very difficult to comply with. It's not a fishing expedition. It's not terribly onerous in terms of massive amounts of electronic discovery. I think that favors the plaintiffs as well.

The next factor, whether the information originated in the United States. It clearly did not. I don't think there is any dispute about that, is there, Mr. Weigel? Or only in the most tangential sense, but this is a foreign defendant doing business with a Chinese bank, documents that presumably reflect information about those defendants that was provided in China or someplace from outside the United States, right?

MR. WEIGEL: That is certainly some of what we're requesting, but we are also requesting the records of the wire

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transfers that originated in the United States. This is money in the most basic sense. Money was wired both according to Mr. Lijun Xu, whose counsel said in a letter that these are the account they wired the money into, and the Chase Bank accounts, money was wired into those accounts from the U.S. and we want those records.

THE COURT: I think this one, even with that caveat, clearly favors the defendants.

The availability of alternative means of retrieving the information. I'm not aware really of any alternative means other than the Hague Convention, which I want to talk about because there is some dispute as to whether the Hague Convention is merely slow, cumbersome and frustrating, or whether it is utterly futile and, therefore, not even worth the price of admission. So I want to come back to that.

The fifth factor, the extent to which noncompliance with the request to undermine important interests of the United States. I think clearly noncompliance does undermine important interest of the United States. The United States has a long and, I think, proud history of respecting and protecting the intellectual property rights of the parties, and that is what has led to people to create a lot of great things that ultimately enhance the quality of life of this society and also ultimately lead to much greater value being brought to a society. So I think there's considerable U.S. interests here .

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The flip side, of course, is whether compliance with the requests would undermine the important interests of the state or where the information is located. Mr. Healy referenced a couple of those in his prior statements, particularly, the fact that confidentiality is an important tool to, I guess, bring the Chinese banking system into the 21st Century from what was a more Agrarian society, and that if people doing business in Chinese banks feel like their confidentiality won't be maintained, maybe they'll, I don't know, put it under their mattress or something. I think there are other interests as well Mr. Healy hasn't talked about. Not everybody in the world wants to usher in US-style discovery. I can't say that that's irrational, frankly, and so I think that we generally respect other countries' rights to set up their own rules of discovery and their own rules of making information available to parties in litigation.

So I think that is probably a wash. Maybe it tips slightly in favor of plaintiffs here because I think the U.S. interests of intellectual property is very considerable and, frankly, is under assault from a lot of different quarters these days.

The next factor hardship of compliance on the party or witness from whom discovery is sought. There have certainly been allegations that would be a violation of Chinese law and that Chinese law would be enforced. There are other

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allegations that perhaps Chinese law would not be enforced against the bank that is, in essence, an arm of the state and

therefore if they have to do it, then nobody is going to get too worked up over it. That's hard to assess, frankly, at this point. I don't think there is a lot of data from which to draw firm conclusions. I think that's a factor that weighs in favor of the defendants.

The last one is the good faith of the party resisting discovery. I don't think there is any allegation that the Bank of China is acting in bad faith; that they are complicit in the infringements in a way that could be arguably a basis for charging them or naming them as a contributory infringer. I can imagine scenarios where that might be the case but at least at this point I don't think that's been alleged. So I think that factor weighs in favor of the defendants.

That is my initial assessment. Anybody think I've missed something or want to elaborate on any of those points, mindful of the time and the guy in the back of the room who I'm supposed to have lunch with.

MR. WEIGEL: Yes, your Honor. I'll try to be quick. On the competing interest point, courts have found that when it is a privilege to be waived by the -- in this case the defendant, the judgment debtor at this point, but when the bank secrecy is a privilege that can be waived by the individual, that it is not as important as, for example, in Switzerland

where it's not waivable, so that that weighs -- that changes the characterization because this is a privilege that the Bank of China clearly has acknowledged can be waived.

THE COURT: That goes to the fifth and sixth factors, I guess.

MR. WEIGEL: Yes. And also, your Honor, we have a situation here where the -- let me go to availability of alternative means which is the other point your Honor was making.

THE COURT: The Hague Convention.

MR. WEIGEL: Yes.

THE COURT: It may be something else too, but I really think it is the Hague Convention.

MR. WEIGEL: It really is the Hague Convention, your Honor.

THE COURT: What's your beef with the Hague Convention; that it's slow or that it's going to -- we could wait six months or a year for the Hague Convention, and we will be no different than we are now because China is not going to make its banks give up the information?

MR. WEIGEL: Exactly right, your Honor. This bank is doing business in New York. It's chosen to do business in New York.

THE COURT: There's no dispute about that.

MR. WEIGEL: Right. And we didn't have an opportunity

to choose who would counterfeit with us, or who would counterfeit our products. But they did have an opportunity not to do business with somebody who was counterfeiting. Between the two of us, which one of us needs to suffer the hardship, they should suffer it. They have the client relationship with this individual.

THE COURT: Let me stop you. You are not suggesting

that there are documents in New York or there are documents accessible from a work station in New York that the defendants are refusing to turn over, are you?

MR. WEIGEL: Your Honor, all I know is that they've made this argument in the past and they came into this courtroom and they did turn over documents. They told Judge Koeltl they were going to turn them over, and they did turn them over. So, the folks in New York do have some control over it because it is the same bank.

THE COURT: I'm presuming word went to the folks in China, and they decided to give up information in China. If there are documents in New York, there is no basis to withhold those, right, just because the Bank of China has its main office in China.

MR. WEIGEL: No, absolutely not, your Honor. We are not arguing that.

THE COURT: Fine. So the next step is if there are bank documents, because clearly it is just documents that are

housed on servers someplace, but those servers are accessible to people in New York, it would seem to me that those are subject to discovery in New York pursuant to a subpoena in New York.

MR. WEIGEL: Right.

THE COURT: You would agree with that.

Mr. Healy, you would agree with that too?

MR. HEALY: No, I wouldn't, your Honor.

THE COURT: You wouldn't.

MR. HEALY: No, I wouldn't.

THE COURT: So, let me ask you a factual question. Are there documents responsive to this subpoena that have not been produced that are readily accessible from work stations here in New York?

MR. HEALY: Your Honor, I can answer it this way: Whatever we found at the bank of New York was produced, we submitted an affidavit, or declaration, pardon me, from the gentleman who was responsible for internal control at the branch indicating that they do not have access to records, they're not plugged in to the computer systems in China, they don't have access to the information. So the answer is there is nothing, as far as I'm aware that is available here in New York, directly or indirectly, that has not been produced that is responsive to the subpoena.

THE COURT: OK. So that's good. So you may have a

legal quibble with what I just said, but we don't need to resolve that because there are no documents in New York or accessible to New York that haven't been produced based on the representation made to you?

MR. HEALY: That is my understanding, your Honor.

THE COURT: OK. Mr. Weigel, you had another point?

MR. WEIGEL: The state department has said, your Honor, that while it is possible to do this, such requests have not been particularly successful in the past. Requests may take more than a year to execute, and it is not unusual for no reply to be received.

That is the state department, which is fairly

diplomatic. Professor Clark in his affidavit says it a little more clearly, but --

THE COURT: All right. I just want to make sure I was understanding your argument, and I think I do.

OK. I want to hear from Mr. Healy now with respect to any of these. Real quick, Mr. Healy.

MR. HEALY: I can work in reverse order. Mr. Clark cites a blog for the proposition that the Hague Convention is not readily accessible. The only thing the blog cites is the state department circular that Mr. Weigel has referred to.

THE COURT: Let me ask you a question. If I make Mr. Weigel go through the hoops of the Hague Convention, are you telling me that China, a court in China will ultimately

issue an order to the Bank of China, and the Bank of China will turn over the responsive documents, and they will be produced?

MR. HEALY: Your Honor, I am not -- I don't speak on behalf of the Chinese courts or the Chinese government, and I'm not in a position --

THE COURT: Is your expert suggesting that that is the way it works and that is the practice?

MR. HEALY: That is why we submitted an expert declaration, your Honor, because I am not a representative of the Chinese government.

THE COURT: I understand that, but I didn't think he went so far as to say that. It seems to me there was very little track record from which to make a determination -- for me to make a determination as to whether the Hague Convention is an inconvenience but it is a treaty, and it is a convention that the parties -- that countries involved have signed on to, and if it's cumbersome, that is kind of life, or whether it's just utterly futile, and, therefore, there is no point in making somebody jump through the hoops.

MR. HEALY: Your Honor, the answer is that I don't have any reason to believe it is futile. We quoted or Professor Wu quoted in his declaration the relevant provisions that implement the Hague Convention -- that call for implementation of the Hague Convention. The state department circular, I would point out, is totally out of date. The last

information -- it says that in 1998, China signed on to the Hague Convention, and the state department was going to get --

THE COURT: I've seen that, so I don't think I need to hear more about it, and certainly there are cases where parities have been ordered to produce documents notwithstanding the fact that a country has signed on to the Hague Convention.

MR. HEALY: That's true, but in the First American case, which is the lead Second Circuit case that the plaintiff cited, in that case which involved England, a letter request had previously been submitted and rejected by the English authorities, and it was on that basis that the Court concluded that another attempt under the Hague Convention was not warranted. We don't have that here.

Just briefly, your Honor, two points. On the necessity, we believe the only necessity that has been articulated by the plaintiffs really goes to the question of judgment enforcement, and we've cited cases for the proposition

which I think is well-established that prejudgment you don't get discovery that relates to judgment enforcement; that your interest --

THE COURT: Why is it judgment enforcement? It's also about establishing liability. Now there is a judgment entered, so I guess liability is sort of moot at this point, but at the time, I mean, the plaintiffs were seeking to get documents and information that would enable them to support the case they

brought against these infringing defendants.

MR. HEALY: I don't think there has been any articulation as to why the information as to what is in the account, if there is a --

THE COURT: The amount of money that's flowing into their account is not relevant to establishing liability under the Lanham Act? That's a stretch.

MR. HEALY: Well, plaintiff obtained information here which is attached to their papers which shows money flowing into the account.

THE COURT: Well, the amount of money is relevant though, right?

MR. HEALY: I don't think so, with the -- they've sought statutory --

THE COURT: OK. Next point.

MR. HEALY: I guess the final point I would make, your Honor, is that -- it is twofold. First of all, there's a reliance on myreplicahandbag. I don't want to make too big a deal about this, but there is a disclosure in their papers which is in violation of a confidential settlement agreement. I have a redacted version of the side letter that is referenced that I brought with me. I've asked for permission to hand it up.

It states explicitly that the terms of the side letter can only be disclosed to enforce the rights in the earlier

action. It is totally inappropriate for there to be any reference to that in these papers. We ask that the Court disregard any such reference.

Secondly, what they're talking about is evidence of a settlement, they're offering it basically as an admission against interest here. The Playboy v. Chuckleberry case from the Second Circuit that we cited precludes that use. One other point, your Honor.

THE COURT: My favorite name for a case.

MR. HEALY: Rule 45 says if you're going to enter an order compelling compliance with a subpoena, that the Court must make provision to avoid significant expense of the party.

We would request that -- and both on the asset restraint side and on the discovery side -- that if the Court decides to enter an order compelling compliance, that the Court provision that on an indemnity obligation from the plaintiffs that if the bank is subjected to expense or liability in China, that they are responsible for that expense. We think that is required by Rule 45. We think it is consistent with the relevant rules that would apply in the context of an asset freeze.

THE COURT: Nobody has, I think, briefed that, or did

I miss it?
MR. HEALY: We asked for it in our --
THE COURT: You asked for it, but --

MR. HEALY: We cited Rule 45. We asked for the relief, and it hasn't been disputed.
THE COURT: All right. I'm going to reserve on the assets -- I guess I'm reserving on everything, but I think I am likely to grant the request to produce documents. I think in balance of factors here weigh in favor of the plaintiffs. I guess I want to consider the last point you made about Rule 45.
Then if the parties want to make some additional briefing with respect to Koehler, Hotel 71, and the application of the separate entity doctrine over Article 52 postjudgment proceedings, I'll allow it. I'm not requiring it, but you had suggested you wanted an opportunity to do that, Mr. Healy, right?
MR. HEALY: Well, your Honor, in the New York State practice, that issue would be teed up by an application for a turnover order that would be on notice to us, and we would have an opportunity to answer and contravene. I haven't seen the judgment that your Honor is about to sign, but it sounds like that short-circuits the whole process, and we are going to be served with a judgment that directs us to turn over without having had any opportunity to contest that, and it seems --
THE COURT: Well, the judgment is likely to contain a provision that references Article 52 as a basis for awarding the judgment in favor of the plaintiffs and sort of setting out a way that they can get the judgment honored.

MR. HEALY: Well, if they are going to bring a motion for a turnover order, we will brief that in the context of request for a turnover order. If the Court -- I'm not quite -- I haven't seen the proposed judgment, so I'm a little at sea here, but --
THE COURT: Take a look -- Mr. Weigel can show you a copy of it. I may tweak it a bit, but not before your taking a look at it and letting me know whether you are suggesting that the granting of that order would negate you or your client's ability to challenge under Article 52.
MR. HEALY: I think the Article 52 is quite clear that once the judgment has been entered, a further step is required to enforce it, and in this particular context, it's an application for a turnover order.
THE COURT: It might be consistent with -- well, it might be just a matter of adding some language that references Article 52.
MR. HEALY: In any event, we would normally be given notice and opportunity as a third party to oppose that.
THE COURT: Right, but I'm giving you notice now. You know what I am planning to do, so you're arguing that Article 52 or Koehler as it pertains to Article 52, is irrelevant because it is separate doctrine -- a separate entity doctrine that renders it applicable only to non-banks.
MR. HEALY: Can we set up a briefing schedule to

address those issues?
THE COURT: Yes, let's do that. How much time do you think you need?
MR. HEALY: Yes, I'm not sure what order would you like us to go in, your Honor. We would certainly be in a position to put in a brief in two weeks.
THE COURT: OK. Let's do that. Two weeks. I think -- you have heard where I am going on this, so I think you should go first probably. Mr. Weigel, if you want to add something, you can do it two weeks later.
MR. WEIGEL: Perfect, your Honor.
THE COURT: I'm not requiring it. I'm just saying it might be helpful, and if you want to do it, I'll allow you to do it.
MR. WEIGEL: Thank you. The only concern I have, your Honor, is that having issued the judgment, and I'm not entirely sure -- I would like to make sure that the status quo doesn't change while we're briefing this.
THE COURT: Status quo?
MR. WEIGEL: In other words, that the account is not drained because having issued a judgment, your Honor, I'm not sure the preliminary injunction remains in force, and the judgment requires them to turn over the assets. If we're briefing this whole issue, you know, can Mr. Healy represent that his client --

THE COURT: Well, until I issue the default judgment, the preliminary injunction is still in effect, right?
MR. WEIGEL: Yes, your Honor.
THE COURT: So, does that satisfy your concern?
MR. WEIGEL: Yes, your Honor, it does.
And if I just may say just half a second on the agreement that I had, the settlement. The settlement does provide that it could be disclosed for purposes of enforcing the settlement. Unfortunately, we were forced to enforce it. The settlement is actually filed on the public record in that case, and counsel for the Bank of China in that case had made no effort and, indeed, had no right to somehow seal that record. It's a public document at this point because they failed to honor it and forced us to make the motion.
But we are not introducing it for purposes of saying that -- of establishing their negligence or something like that. We are doing it for the point of saying that they produced the documents, and they've never come in here and claimed that they in any way suffered any injury.
THE COURT: I understand why you're doing it. Whether it's in violation of or consistent with a confidentiality provision, I don't know. So I will look at that.
MR. WEIGEL: Thank you.
THE COURT: All right. Thanks.
MR. HEALY: Would you like us to hand up the redacted

side letter so you have the provision in front of you?
THE COURT: You can send it to me with your papers in two weeks. I will issue a short order that just memorializes

the schedule I set forth. Let me thank you for the effort that went into this. It's a very fascinating question, and I appreciate the lawyering that went into it by each of you and by those who work with you.

MR. HEALY: May I ask one question, are you going to withhold entering the judgment until we brief this issue?

THE COURT: I will either withhold entering the judgment because I don't know if it's going to make a difference. Mr. Weigel, is it going to make a difference at this point? The bank in China is the only game in town at this point, right?

MR. WEIGEL: The Bank of China is the only source we know of right now of any funds.

THE COURT: So I could wait or I could tweak the language in such a way that it doesn't foreclose the relief you think you are entitled to under Rule 52 so that it sort of leaves that as an open issue, something like "consistent with the rights of garnishees under Article 52 of New York CPLR." I think that might solve the problem and still allow me to issue the judgment.

MR. WEIGEL: My only concern, which I think Mr. Healy can fix, is that there be some change in status of the account.

And I certainly don't expect him to turn over the money to me until your Honor rules, but I don't want him to let the money go either.

THE COURT: Right. But you think that that possibility is enhanced by the issuance of the default judgment or you're just generally concerned about this change in status quo?

MR. WEIGEL: I am generally concerned about the status quo, and if your Honor is going to tinker with the default judgment to be careful that it doesn't in some way -- because I believe it was designed to require them to turn the money over now that the case was over.

THE COURT: Well, I mean, it would do that. If the new language had said "consistent with Article 52" and it allowed for them to make a motion as a garnishee is entitled to under Article 52, right, to say -- really, it's an issue as to who is the real owner. Isn't that the whole point of Article 52?

MR. HEALY: I think Article 52 serves two purposes. It certainly gives the third party the opportunity to object either on the grounds that it is the actual owner of the property or on other grounds, and certainly we have other grounds to object here, which is it violates Chinese law and it subjects us to liability --

THE COURT: The question is while we're talking about

that and briefing that, if the defendants are to stroll in and say "I'd like to make a withdrawal," is your client going to say, "You bet"?

MR. HEALY: Your Honor, I have no instruction on that point. We obviously take the position that the preliminary injunction lacked authority.

THE COURT: So, whether there is a preliminary injunction in place or not in place, your advice would not be

any different to your client?
MR. HEALY: To be honest, I don't think it's appropriate --
THE COURT: It's a risky move, but that's your position.
MR. HEALY: I don't think it's appropriate for me to talk about what advice I will or will not give the client.
THE COURT: That's true.
MR. HEALY: All I am saying is that I don't have an instruction from my client that addresses the question that you just posed.
THE COURT: Mr. Weigel, if you want me to wait because you feel more comfortable having the preliminary injunction in place, I'm happy to do that. If there is some downside to waiting because you think you can do something with the judgment now, and waiting two weeks or four weeks is going to be an impediment, then it makes sense to figure out whether

there is language that can be crafted for inclusion in the judgment that will provide the same protection that you think you have under the preliminary injunction. I think I can order contempt under either, can't I?
MR. HEALY: I think you can do under either, and I think I would be comfortable with your Honor crafting language that required them to turn it over.
THE COURT: What I may do then is craft some language and send it to the parties and give you an opportunity just to opine before I pull the trigger.
MR. HEALY: My request, your Honor, would be that we brief the issue and that the judgment not be signed until we've done that because I think that would be consistent with the New York practice.
THE COURT: I get that, but I will send something before I issue an order, in any event. Great. Thanks a lot. Thank the court reporter too.
(Adjourned)